

NOT FOR PUBLICATION UNTIL RELEASED BY  
THE COMMITTEE ON ARMED SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES

STATEMENT OF  
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CHIEF EXECUTIVE OFFICER, NAVY EXCHANGE SERVICE COMMAND  
BEFORE THE MILITARY PERSONNEL SUBCOMMITTEE  
OF THE  
COMMITTEE ON ARMED SERVICES  
UNITED STATES HOUSE OF REPRESENTATIVES  
JUNE 7, 2012

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Chairman Wilson, Ranking Member Davis, and distinguished members of the Subcommittee, I am pleased to appear before you today to provide an update on the Navy Exchange Service Command (NEXCOM). As part of efficiencies initiated by the Secretary of Defense, NEXCOM's flag billet was converted to a civilian Chief Executive Officer (CEO) position. I am privileged to be back as NEXCOM's first civilian CEO and proud to once again lead this tremendous group of dedicated professionals.

During 2011 we celebrated our 65<sup>th</sup> anniversary. NEXCOM was officially established in 1946 with an overriding objective to improve the quality of life of Navy personnel. CAPT Wheelock H. Bingham, SC, USNR stressed the crucial role of morale, noting that Navy had two courses of action – either realize morale and welfare are essential or not. The Secretary of the Navy agreed to the importance and approved the establishment of NEXCOM on April 1, 1946. Today, in this current fiscal environment, it is more important than ever that we remain committed to that basic principle; the benefits we provide are a key element of quality of life and essential to the morale of our Sailors and their families.

Today, after more than a decade of fighting, our nation remains at war. And, when duty calls, all our volunteer warriors, without hesitation, have answered the call to arms. Once again, they make selfless sacrifices, and in some cases, the ultimate sacrifice, to preserve the Republic and protect Americans and the American way of life. Much has been asked of these men and women who wear the cloth of our nation and, in an environment of smaller budgets and fewer forces, I expect even more will be asked of them. The military services must continue to offer a way of life that satisfies these individuals, looks after their families when they are off doing the nation's bidding, and more importantly, provides for a lifestyle which fosters an all volunteer

force. We must continue to enhance the quality of military life in order to attract and retain qualified volunteers. As the nation wrestles with its financial challenges, I expect that the quality of life benefits will become a more important, relevant and integral part of compensation. Studies have shown that non-pay benefits provided by our military resale organizations are important to the total compensation package and are part of the military experience, both of which are critically important factors in increasing retention and improving readiness.

Support to military families is vital. Relocations to other cities or countries, long separations when military members deploy are all challenges our military families face. Service members and their families have grown to appreciate that family and quality of life issues will be taken care of by military leaders who care. I can assure you that our military families are in good hands at the NEXCOM. Our more than 14,000 managers and associates worldwide have a strong connection to the Navy community and deliver these benefits with an unsurpassed level of dedication and a strong and proud history of service. A large portion of our workforce are themselves family members. We remain steadfast in our commitment to military families, assisting them in meeting the stresses and challenges of military life.

NEXCOM provides career opportunities for our military families and a supplemental source of income so critically important in these difficult times. Military family members comprise 26 percent of NEXCOM's U.S. workforce. NEXCOM's Continuity of Employment Program helps ease the stress of a military move by taking the worry out of finding a new job for family members transferring with an active duty member. Since the program's inception in 1998, over 1,300 family members have been placed in positions at the service members' new duty station. The Continuity of Employment program has allowed us to take care of our military family members by keeping them employed, while retaining good and dedicated people in our

NEXCOM family. As an example, one spouse who benefited from the program was hired by NEX Kings Bay, Georgia in 1994 as a clerk/cashier and remained employed through her military spouse's moves to Bangor, Washington and Virginia Beach, Virginia. With her husband's transfer back to Kings Bay she has returned to the NEX as a member of the management team. NEXCOM is also a partner in the Department of Defense's Military Spouse Employment Partnership, which pledges employment support to spouses, further solidifying NEXCOM's commitment to military spouses.

Our Sailors and their families expect us to deliver value and savings in the normal course of business, and in these tough economic times they expect more and rely on us even more. Surveys have shown that 75 percent of our customers cite savings as a major reason for shopping NEX. Each year we use an outside firm to conduct a market basket survey to determine how much money we are saving military families. The latest results show customers save an average of 23 percent below commercial retail prices, not including sales tax, generating over \$500 million in non-pay compensation to our authorized patrons. For the past 13 years we have been surveying customers on their shopping experience. Our annual internal Customer Satisfaction Index (CSI) survey provides an opportunity for our customers to rate their benefit, providing valuable feedback which allows NEX to better serve them - whether it is stocking different merchandise assortment, providing better customer service or updating the facilities. For the second year in a row, the CSI score remained at our all-time high of 83, and is considered to be in the top tier of industry retailers. This year, questions were added to help us better understand how well we are connecting with our customers, their families, and the Navy. Questions included, "This NEX makes me feel like the Navy is committed to my family's needs" and "This

NEX makes me feel connected to the Navy.” The results rated very high, showing customers view the NEX as a key element of Navy life.

The exchanges are often compared to commercial retailers. No commercial retailer has the depth and breadth of services that our exchanges provide to military families. Furthermore, no commercial retailer would operate at small, remote or overseas locations where the Navy operates. In many ways we bring America to the Sailors around the world. When a Sailor can walk in one of our stores and buy a soda, CD, jeans, or the toothpaste they like, there is an incredible connection to being back home. It reduces stress and creates loyalty to the Navy’s mission. In addition to our contribution to military readiness and retention, we are, and always will be, a military organization that also contributes to personal and family readiness through our six business lines – Navy Exchanges, Navy Lodges, Ships Stores, Unofficial Telecommunications, Navy Uniforms and the Navy Clothing and Textile Research Facility.

Navy Exchanges offer name brand products and quality merchandise at an average savings of 23 percent, not including sales tax. In addition, there are over 1,200 service operations such as gas stations, food outlets, laundry/dry cleaning, barber/beauty salons, flower shops, tailor shops, optical and optometry services and complete vending services. The Navy Exchange financial position remained strong in 2011. Total annual sales were \$2.8 billion with a net profit of \$61 million which generated \$43 million in dividends for Morale, Welfare and Recreation (MWR) programs and \$18 million for reinvestments in Navy Exchanges to improve the shopping experience and ensure Navy Exchanges remain an attractive option in a competitive retail market. Total sales increased 4.9 percent compared to the prior year. The core retail store business remains strong with sales exceeding last year by 3.3 percent. NEXCOM continues to provide a significant and important dividend to Navy’s MWR programs. Installations receive a

portion of the dividends for specific installation level MWR efforts and the remaining funds are used for MWR capital projects to improve facilities, enhancing local recreation opportunities for Sailors and their families.

To ensure all customers have access to the Navy Exchange benefit, NEXCOM has a web-based store, myNavyExchange.com. The web-based store carries over 7,500 products with new items added regularly, and provides product and food nutritional information. The web store is especially helpful for those customers who do not live near a Navy Exchange, which includes many reservists, retirees and deployed active duty. Web store sales for 2011 reached \$8 million with nearly 43,000 orders placed from around the world and ships at sea. We have not yet realized our full potential and are dedicating more resources in this area.

Navy Lodges are primarily for military families on permanent change of station (PCS) orders. Navy Lodges reduce the stress of a PCS move with family suites featuring a living room, fully equipped kitchen, and one and two bedrooms to accommodate families transitioning to a new duty station. The Navy Lodge program offers military families and other authorized patrons clean, comfortable, convenient, oversized rooms and provide very affordable accommodations worldwide. An added benefit to the military family is our pet friendly rooms. The program operates as a separate, distinct fund whose profits are reinvested in Navy Lodge facilities. Navy Lodges continue to save government travel dollars by pricing accommodations 40 percent below per diem. There are 40 Navy Lodges worldwide serving families who PCS with total annual sales of \$66 million and a net profit of \$11 million.

The 21<sup>st</sup> Century fleet Sailors and Marines depend on their afloat Ships Stores Program just as their predecessors did before them. At 158 locations, three ashore stores and 155 ships around the world, Sailors and Marines can find the same kind of popular consumer items that are

in NEXs, get a quality haircut, use vending machines and access laundry facilities. Just as Sailors and Marines are on duty 24/7/365, the Ships Stores Program is there with them to provide key quality of life services. As an added benefit, the program generates profits to provide enhanced morale and recreation programs to the crew and embarked forces. Profits are also provided to central Navy MWR to provide financial assistance to fleet units that do not have a ship's store, such as submarines, tugboats and ships in extended shipyard periods. 2011 total sales were \$73 million, which generated \$12 million for Navy afloat MWR.

Our Telecommunication Program is the overall manager for unofficial personal telecommunications for the Navy and provides easy and affordable communications to maintain contact back home, a major quality of life component for our Sailors. For the tenth year in a row, military members underway or forward deployed during the holiday season were given a free \$10 phone card to call loved ones back home. Free cards were also distributed to Sailors and their families after the earthquake and tsunami in Japan. Through these efforts, NEXCOM distributed nearly 69,000 free phone cards. At ashore locations, working with Commander, Navy Installations Command, we are providing new and improved performance Wireless Fidelity Internet (Wi-Fi) services to Bachelor Housing, Navy Gateway Inns and Suites, Navy Lodges and MWR facilities in CONUS as well as OCONUS including Djibouti and Bahrain.

NEXCOM's Uniform Program Management Office plays a vital role in the distribution, sale and tailoring of Navy uniforms. Additionally, NEXCOM provides uniform support to the Marine Corps, Coast Guard, Public Health Service, and the NJROTC and NROTC programs. This is accomplished through 103 globally positioned Uniform Shops and the Uniform Support Center. The Uniform Support Center provides uniform support for the Sailors and Marines

deployed worldwide and for those who have made the ultimate sacrifice in support of the nation through the Port Mortuary at Dover Air Force Base in Delaware.

The Navy Clothing and Textile Research Facility (NCTRF) develops uniform and personal protection ensembles for Sailors and other war fighters through research, development, test and evaluation. NCTRF manages nearly 340 uniform items and fabrics and over 2,600 insignia items through the Navy Uniform Certification Program ensuring that uniform items sold via NEX Uniform Shops meet or exceed Navy quality requirements.

As mainstream communication channels evolve so too has NEXCOM. Social media has been invaluable in communicating with our customers. The Navy Exchange Facebook page had 115,000 fans at the end of 2011. NEXCOM's response rate to fans requesting additional information averaged 90% within two hours. Navy Exchange customers are notified of upcoming sales, promotions and store events and are able to ask questions and participate in surveys. These social media forums help spread the word about the NEX benefit and keep our customers connected.

NEXCOM maintains a strong nonappropriated funded capitalization program, averaging \$58 million per year for major and minor projects. Last year construction was completed on a new Mini Mart at Naval Station San Diego, California; a new 205 room Navy Lodge at NAS North Island, California; an addition and renovation of the Naval Station Norfolk, Virginia main store; and an addition and renovation of NAS Whidbey Island, Washington main store. Our field teams also executed work on 100 minor projects providing renovations at many locations worldwide and incorporating new technology to reduce energy consumption. Through 2011, energy data for 32 facilities, representing 20% of NEXCOM's facility footprint, were compiled



to identify specific utility consumption trends within our buildings and to address opportunities to reduce consumption throughout the NEXCOM Enterprise.

Navy Exchanges and Navy Lodges deliver much more than savings. These are places where our families can go for that sense of community, particularly for the family whose Sailor is deployed and for those who live overseas. With the support of our industry partners, we offer many programs and activities focused on military families, including customer appreciation events, celebrity appearances, homecoming events, health and safety awareness programs, bridal fairs, back to school events, A-OK Student Reward program and joint events with MWR and the Defense Commissary Agency (DeCA) and many others. Our A-OK program, fully funded by our industry partners, completed its 14<sup>th</sup> successful year and has awarded \$589,000 in U.S. savings bonds to students of military families since its inception. Students who receive a B or better on their report cards are entered in quarterly drawings. In May, NEXCOM joined with DeCA and Navy MWR in providing Family Fun and Fitness Festivals at 12 locations, emphasizing customer involvement, fitness events and sale events at both the NEX and commissary. Last year, NEXCOM also joined a partnership with TRICARE, DeCA and the other exchanges to support public awareness for helping to combat childhood obesity. All these events support our military families and further show our commitment to their well being.

NEXCOM places great importance on staying connected with the Sailors we serve. The Navy's 21<sup>st</sup> Century Sailor and Marine Initiative has a number of objectives and policies to maximize each Sailor's and Marine's personal readiness. NEXCOM supports this initiative in a variety of ways. Through a partnership with the Navy Fitness Program, the Navy Exchange offers a workout kit designed to support Navy's fitness objectives. The Navy Exchange offers a convenient way for Sailors to obtain their workout equipment, nutritional products, motorcycle

safety products and other merchandise that supports the 21<sup>st</sup> Century Sailor and Marine initiative. In addition, the Navy Exchange often serves as Navy's distribution center for communicating the Navy's messages which support Navy Sailors and their families. The Navy Exchange is typically the location where education materials can be disseminated about fitness, nutrition, family support programs, as well as alcohol, tobacco and substance abuse education. NEXCOM is an extension of, and fully aligned with Navy as we work together to help Sailors make good choices.

One example of the NEXCOM Enterprise taking care of its military family was during Operation Tomodachi in the wake of the earthquake, tsunami and nuclear disaster in Japan. NEXs in Japan worked closely with the Commander, Navy Region Japan to ensure there were enough water, batteries, and fuel available to families in the weeks following the disaster. The NEXs also stayed open regular hours, despite having a decreased staff, to ensure customers had access to the products and services they needed. Our Navy Lodges were also involved, housing families who were evacuated to the United States from Japan. Finally, our vendor partners also helped out by donating goods including prepaid phone cards, toys, school supplies and food items to those displaced families. The NEXCOM Enterprise did what it does best – pull together to support its Navy family in both good times and during a crisis.

All military exchanges continue to have a robust partnership in identifying and executing cooperative efforts. We have teams with representatives from each exchange constantly looking for ways we can work together to find efficiencies and to lower our costs. In two key areas, joint contracting and logistics, we have been able to execute significant cost saving initiatives. This past year, we identified and combined our requirements in a number of contracting actions with estimated savings of \$35 million over the life of these contracts. These contracts range

from fuel for our gas stations, to inventory equipment, to credit card processing services. In logistics, we are sharing containers and truck transportation within CONUS between AAFES and NEXCOM. NEXCOM also provides merchandising and logistics support for the Marine Corps and Coast Guard Exchanges. We provide auditing and other support functions for Navy MWR. NEXCOM provides food contract support to Navy MWR, Air Force MWR, Marine Corps Community Services, as well as all the food operations in the Pentagon. In all areas, we are looking to our quality of life partners to ensure we have the most efficient and effective organizations.

This year, the exchanges expanded the Exchange Cooperative Efforts Board to include DeCA as a full member of the board, and have included the Coast Guard Exchange to participate where ever possible in an effort to pursue military resale cooperative efforts among all commands. The board is now known as the Cooperative Efforts Board (CEB).

We are fully embracing our Wounded Warriors. Our Navy Lodges provided over 13,000 room nights in 2011 to support wounded service members and their families. Our recently renovated Mini Mart at NAVHOSP San Diego features wider aisles and lower shelves allowing wheel chair restricted Wounded Warriors to move with ease in the store and to easily shop from a sitting position. Our industry partners continue to provide their support through donations such as video game systems.

NEXCOM is participating in job fairs focused on hiring Wounded Warriors, as well as all our veterans. We recently welcomed a Wounded Warrior and his service dog to the Loss Prevention/Safety Department at NEX Pensacola, Florida. This Master-at-Arms First Class was wounded in an IED attack in Iraq. He is a speaker for the Wounded Warrior program, promoting the use of service dogs to help with PTSD and their use in the workplace. We value all our

veterans for what they did for our country. If we are able to provide them with an opportunity to continue to serve, or serve again, it is a win-win for NEXCOM and the veterans.

The Navy Exchange and the Navy Lodge operate as nonappropriated fund instrumentalities, operating with minimal appropriated funds. Nonappropriated funds belong to the troops, not the taxpayer. We should not lose focus that commissaries are funded with appropriated funds and exchanges are funded with nonappropriated funds. Unlike the commissaries, Navy Exchanges generates profits that are an important financial contribution to MWR.

The minimal appropriated support provided to the Navy Exchange provides a tremendous benefit and has a high return on investment to our Sailors and their families. Congress understands the value, and has shown strong support for appropriated dollars to fund the transportation of merchandise to overseas locations. This allows Sailors and their families to purchase American products at stateside prices. Many of these overseas locations do not offer similar products near the installation, and in some cases such as Guantanamo Bay, Cuba or Djibouti, Africa, there is no alternative source of merchandise. Along with the multitude of services NEXCOM provides through its presence at installations... taking care of personal needs, improving quality of life, executing Navy's programs...NEXCOM provides a tangible return on Navy's investment. The savings at the cash register and funding for MWR programs deliver more than a six to one payback of appropriated funds used to support the Navy Exchange, providing an effective and efficient mechanism to support our Sailors and their families.

Our associates are the heart and soul of NEXCOM. I see their dedication and commitment to our military families everywhere I go. As we continue our focus on delivering

the benefit today, we are also working to sustain and improve our future viability. We will continue to be responsible stewards of our Sailors money, grow the benefit and build towards the future. Our vision is to become our customers' first choice, reflecting the spirit of our Navy, our Sailors and their families. Our 2015 Strategy embraces this vision with three major goals: strengthen Navy community readiness, deliver the benefit to Sailors and their families, and grow the benefit through sustainability and continuous improvement. With our priorities in place, dedicated associates working within the NEXCOM Enterprise, and customers who rely on us, we will make it happen.

What we accomplish cannot be done without the support of our industry partners and the strong support of this subcommittee, which has remained unwavering over the years. This subcommittee sends a clear message that these programs which support our military families are critically important. We are grateful for your support.

In summary, we have a strong program which continues to grow stronger. Our retail system is not like any other retailer; our customers are unlike any others. Our customers are the men and women who defend our nation, protect us and our way of life, and their families; they deserve the best we can give. We will continue to be vigilant in our commitment to them.